Order 2004-11-2
Served: November 10, 2004

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 5th day of November, 2004

Essential Air Service at **LEBANON, NEW HAMPSHIRE** Under 49 U.S.C. 41731 *et seq*.	**DOCKET OST-2003-14822**

ORDER SELECTING CARRIER AND ESTABLISHING SUBSIDY RATE

Summary
By this order, the Department selects Colgan Air, Inc., d/b/a US Airways Express (Colgan), to provide subsidized essential air service at Lebanon, New Hampshire, at an annual subsidy rate of $998,752 for the two-year period beginning October 1, 2004, through September 30, 2006.[1]

Background
On March 27, 2003, Colgan filed a 90-day notice of its intent to suspend its unsubsidized service at Lebanon, effective June 25, 2003. By Order 2003-6-4, June 2, 2003, the Department prohibited Colgan from suspending service beyond the end of its 90-day notice period, through July 25, 2003, and requested proposals, with subsidy if necessary, from carriers interested in providing replacement service. At the time, we received proposals from Colgan and Mesa Air Group on behalf of its subsidiary, Air Midwest, Inc. (Air Midwest).[2] However, rate negotiations with the carriers stalled and, at the community's request, we issued Order 2004-6-7, June 8, 2004, requesting proposals under our new, streamlined procedures for processing essential air service cases.

On June 25, 2003, Colgan became eligible for compensation for its hold-in service. By Order 2003-7-16, the Department set an annual subsidy rate of $1,084,930, to be paid until the carrier-selection case was completed. Colgan currently provides three daily nonstop round trips between Lebanon and New York's LaGuardia Airport, with 19-seat Beech 1900D aircraft.

---

[1] See Appendix A for a map of the service area.

[2] As required by 49 U.S.C. 41734, the Department has maintained Colgan's service obligation at the community by a series of 30-day hold-in orders, requiring the carrier to continue to provide service.

Carrier Proposal

We received two proposals in response to our latest request, one from Colgan and one from Air Midwest. Colgan proposes to provide 18 nonstop round trips a week between Lebanon and New York's LaGuardia Airport, operated as US Airways Express, with 19-seat Beech 1900D aircraft, at an annual subsidy requirement of $998,752. Mesa proposes to provide 18 nonstop round trips a week between Lebanon and Boston's Logan Airport, with 19-seat Beech 1900D aircraft, with an annual subsidy requirement of $1,292,267.

Community Comments

By letter dated August 5, 2004, the City of Lebanon expressed its preference for Colgan to continue to provide essential air service at Lebanon. However, the community noted that after thoroughly reviewing both proposals, several miscalculations were found in Colgan's submission.

In response, by letter dated September 9, 2004, Colgan sought to clarify its proposal. The carrier explained that incorrect assumptions were provided in some cases, causing it to appear that there were several miscalculations. For instance, Colgan stated that all of the costs included for Flying Operations, Maintenance and Fuel should have been based on block hours, not flight hours, consistent with the last several proposals it had presented. Finally, Colgan stated that it was not changing its base proposal, but merely correcting the assumptions which were incorrectly displayed in the proposal.

Decision

In this case, we are concerned that Colgan's proposal contains internal inconsistencies. For example, Colgan's Appendix (attached) showing its subsidy calculations labels flying operation expenses as based on *flight* hours when, in fact, it is clear that these expenses are derived using *block* hours, which is consistent with Colgan's historical proposals. In some cases, the carrier appears to have understated its expenses; in other cases, overstated. Nonetheless, we find that Colgan's letter of clarification is sufficient to consider its proposal.

While the Department does not require any backup documentation to support carriers' subsidy requests, we strongly encourage it. It is sufficient for a carrier simply to request a certain dollar amount of subsidy. However, if a carrier does submit supporting data for their subsidy request, we fully expect the documentation to be accurate.

After a thorough review of the proposals and community comments, we have decided to select Colgan to continue to provide essential air service at Lebanon, consisting of three daily nonstop round trips between Lebanon and New York's LaGuardia Airport, with 19-seat Beech 1900D aircraft at an annual subsidy rate of $998,752. In selecting a carrier, 49 U.S.C. 41733 requires us to consider the reliability of the applicants, the contractual and marketing arrangements the applicant has made to ensure service beyond the hub, the applicants' interline, through ticketing and baggage check-in arrangements, and the preferences of the users of the service. In addition, we have always given consideration to the applicants' relative subsidy requirements.

Colgan currently operates the Lebanon service as a US Airways Express carrier, and thus fully meets the second and third criteria. In addition, it has provided reliable service at the community for a number of years, and has the support of the community. Finally, though not a statutory criterion, Colgan's subsidy request is lower than Mesa's. Thus, all of the selection criteria favor Colgan, and we will select it.

Carrier Fitness

According to 49 U.S.C. 41737(b) and 41738, the Department must find an air carrier fit, willing and able to provide reliable service before we compensate it for providing essential air service. We last reviewed Colgan's fitness by Order 2004-6-14, June 18, 2004, in connection with its subsidized air service at Beckley and Bluefield/Princeton, West Virginia. Since then, the Department has routinely monitored the carrier's continuing fitness, and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. Based on our review of its most recent submissions, we find that Colgan continues to have available adequate financial and managerial resources to maintain reliable service at Lebanon, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with 14 CFR Part 121, and knows of no reason why we should not find that Colgan remains fit.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department selects Colgan Air, Inc., d/b/a US Airways Express, to provide essential air service at Lebanon, New Hampshire, as described in Appendix C, for the two-year period from October 1, 2004, through September 30, 2006, at the annual subsidy rate of $998,752;

2. The Department sets the final rate of compensation for Colgan Air, for the provision of essential air service at Lebanon, New Hampshire, as described in Appendix C, for the period beginning October 1, 2004, through September 30, 2006, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix C, and shall be determined by multiplying the subsidy-eligible arrivals and departures flown during the month by $549.97;[3]

3. The Department finds that Colgan Air, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Lebanon, New Hampshire;

4. We direct Colgan Air to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department.

---

[3] See Appendix C for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, a revision of this rate may be required.

Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed, whichever comes first. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order; and

5. The Department will serve a copy of this order on the Mayor and Airport Manager of Lebanon, Colgan Air, Inc., Mesa Air Group, d/b/a Air Midwest, Inc.

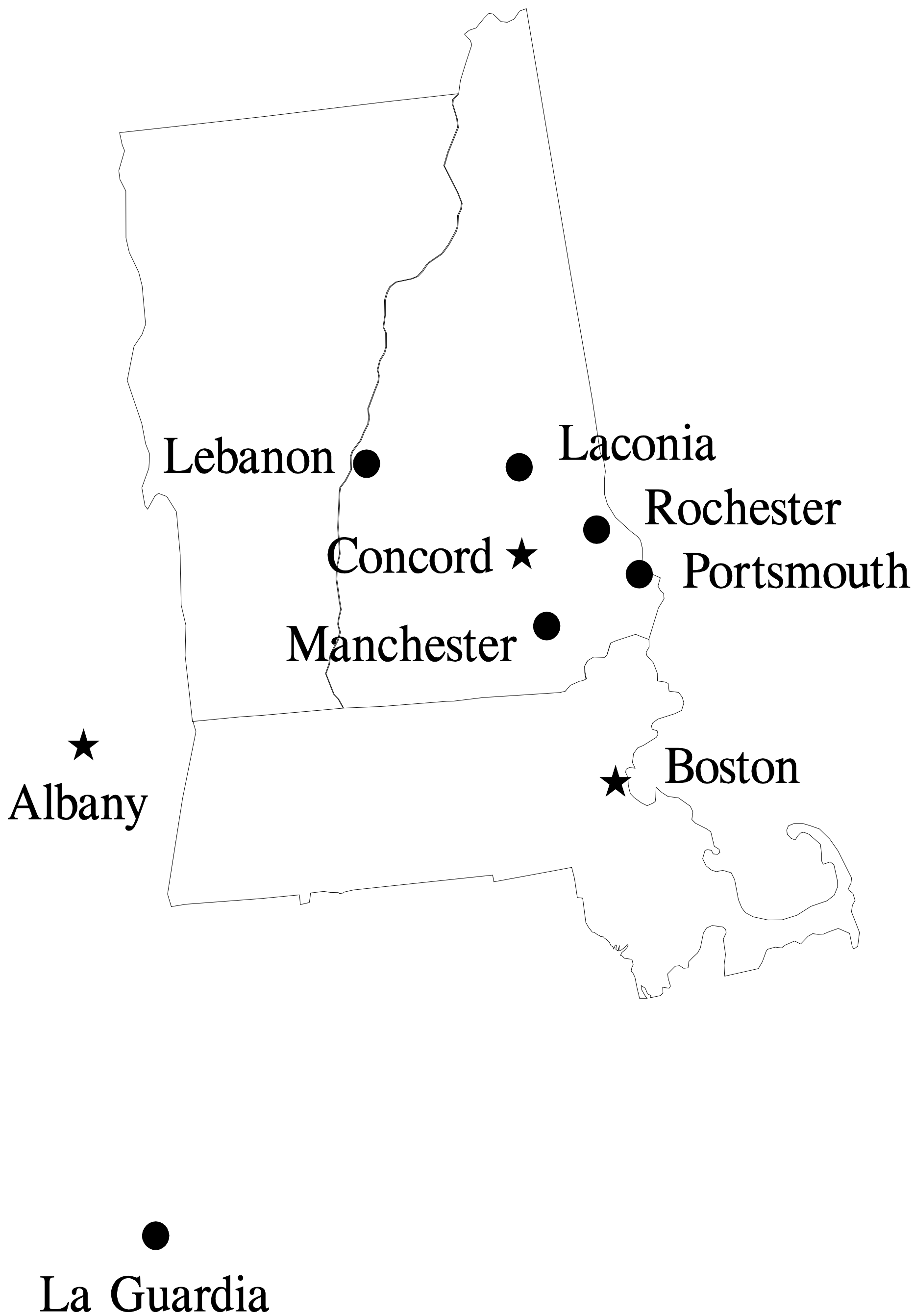
By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

An electronic version of this document is available on the World Wide Web at http://dms.dot.gov

LEBANON, NEW HAMPSHIRE
AND SURROUNDING COMMUNITIES



Appendix B

PROPOSAL OF
COLGAN AIR, INC., d/b/a US AIRWAYS EXPRESS
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT LEBANON, NEW HAMPSHIRE

Aircraft Type	Beech 1900D
Block Hours	2,361
Flight Hours	2,290
LGA Landings	908
LEB Landings	908
Passengers	11,806
Aircraft	1.00
Total Pax. Revenue	2,052,355
Other Revenue @.6%	12,314
Total Revenue	2,064,669
Flying Operations ($123.88/FH)	292,430
Total Maintenance ($315/BH)	743,586
Fuel ($184.80/BH)	436,237
Hull Insurance @ $40,000/Plane	42,000
Liab. Insur./Dep., $10.50/dep	17,160
Liab. Insur./Pax., $2.50/pax.	26,564
B-1900D Lease/Year	288,000
Total Directs	1,845,977
Hub Grd. Handling/O&D Pax. $4.30/pax	50,766
Hub Ldg. Fee @ $25.62/ldg.	101,814
EAS Station Salaries/Ops.	150,860
EAS Ldg. Fee	60,878
EAS Station Rent	86,168
USAir Pax. Fee $12.12/pax	143,089
USAir Rev. Fee 6.30% of Revenue	129,298
Crew Training ($35/FH)	16,090
(Marketing/Promotion) .61% of Above Costs)	16,090
G&A, 5% Percent of Above Costs	263,769
Total Indirects	1,071,567
Total Operating	2,917,544
Return @ 5%	145,877
Economic Cost	3,063,422
Annual Subsidy @ 97%	998,752

Lebanon Calculations:
36 flights / week x .97 completion factor =1816 Departures
36 flights / week x 78 minutes x .97/60 =2361 BH
36 flights / week x 58 minutes x .97/60 =1755 FH

COLGAN AIR, INC., d/b/a US AIRWAYS EXPRESS
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT
LEBANON, NEW HAMPSHIRE

Effective periods:	October 1, 2004, through September 30, 2006
Service:	18 round trips a week to LaGuardia International Airport
Intermediate stops and upline service:	No upline or intermediate service is permitted without prior Department approval.
Aircraft type:	Beech 1900D aircraft (19 seats)
Timing of flights:	Flights must be well-timed and well-spaced in order to ensure full compensation.
Annual compensation:	$998,752
Subsidy Rate Per Arrival/Departure:	$549.97[1]
Weekly Compensation Ceiling:[2]	$19,798.92[3]

[1] Annual compensation of $998,752 divided by 1,816 annual arrivals and departures as shown in Appendix B.
[2] This rate assumes an annual completion factor of 97 percent. A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.
[3] Subsidy rate per arrival/departure of $549.97 multiplied by 36 eligible arrivals and departures each week.

NOTE

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of this rate, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on this route. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.